ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

First United Corporation (First United Bank & Trust)

Person to be contacted regarding this report:	Carissa Rodeheaver	RSSD: (For Bank Holding Companies)	1132672
CPP Funds Received:	$30,000,000	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP Funds Repaid to Date:	$0	FDIC Certificate Number: (For Depository Institutions)	4857
Date Funded (first funding):	1/30/2009	City:	Oakland
Date Repaid[1]:		State:	Maryland

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

☒	Increase lending or reduce lending less than otherwise would have occurred.	The Bank was able to continue to make loans to creditworthy borrowers. While the overall level of the portfolio remained the same, loan payoffs and pay downs of approximately $250 million were replaced by an equal amount of new loans.

☒	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Net commercial loans increased $34 million, while net consumer loans decreased by the same amount. Over 4,000 new loans totalling $250 million were made to consumers ($102 million) and businesses ($75 million secured by real estate and $73 million business loans).
☐	Increase securities purchased (ABS, MBS, etc.).	The Bank did not increase the level of its investment securities portfolio.
☒	Make other investments	The Bank was able to commit to a $6 million investment in a low income housing tax credit project in its jurisdiction in 2009.
☒	Increase reserves for non-performing assets	The Bank increased its allowance for loan losses by a net $5.7 million in 2009, increasing its coverage of the loan portfolio from 1.26% to 1.79%.

☒	Reduce borrowings	The Corporation reduced its short and long term borrowing positions by $9.8 million during 2009.
☒	Increase charge-offs	The Corporation charged off an incremental $4 million in credit losses on loans and an recorded an incremental $24 million in "other than temporary" credit losses on investment securities in 2009 over 2008.
☐	Purchase another financial institution or purchase assets from another financial institution	
☒	Held as non-leveraged increase to total capital	In January 2009, the CPP capital was brought in at the holding company level as a "buffer" to existing well-capitalized levels, and was pushed down to the Bank in March 2009. The CPP capital enabled the Corporation to remain above regulatory requirements throughout 2009.

What actions were you able to avoid because of the capital infusion of CPP funds?

The Corporation issued $30 million in preferred stock to the US Treasury in January 2009 under the CPP program. At December 31, 2008, the Corporation and the Bank maintained capital levels that exceeded the amounts to be considered "well-capitalized" under applicable regulatory requirements. Initially, the CPP capital provided an additional "buffer" to these capital levels.

During 2009, the Bank recorded a provision for loan credit losses of $15.6 million (exceeding the 2007 provision by $13.3 million), "other than temporary impairment" credit losses on its investment securities portfolio of $26.7 million (compared to none in 2007), and $3.9 million of FDIC insurance premiums (compared to $0.2 million in 2007). The capital buffer provided by the CPP capital enabled the Corporation and the Bank to remain above applicable regulatory capital requirements throughout 2009 despite these reductions to its income that were a direct consequence of the economic environment that existed in 2008 and 2009. The Corporation was then able to take a methodical approach to raising incremental capital - raising a total of $10.5 million in capital via trust preferred securities issued to private investors in fourth quarter 2009 and first quarter 2010.

The CPP capital enabled the Bank to continue its ability to lend to creditworthy consumer and small business customers. Over 4,000 new loans totalling $250 million were made to consumers ($102 million) and businesses ($75 million secured by real estate and $73 million in C&I business loans). While this represented a decline in the number and amount of new loans from 2008 levels, the Bank was able to successfully compete in its marketplace that experienced a reduced demand for the types of loans that the Bank originates. Additionally, the mix of new loan production aided in shifting the overall mix of the Bank's loan portfolio which helped to reduce concentrations in certain commercial real estate sectors.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

None.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

None.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.